Oil & Gas Bulletin
► 29.04.2011

Turkey and Azerbaijan fail to agree to terms on gas transit terms

Platts (David O'Byrne), *29.04.2011*

Turkey and Azerbaijan failed to reach a final agreement over the purchase and transit of natural gas to be produced from the second phase of Azerbaijan's Shah Deniz gas field, despite having arranged a signing ceremony for Friday afternoon, a spokesman for Turkey's Energy Ministry said.

The spokesman confirmed that the two sides had reached an agreement in principle on an inter-governmental agreement governing the planned gas deal and over Turkey buying up to 6 bcm/year of gas from the second phase of Shah Deniz. But they failed to reach agreement over terms governing the transit of another 10 bcm/year to Europe via Turkey.

Rather than sign an agreement on the issues they agreed on and continue talks on outstanding issues, the two sides agreed to continue talking until May 16, when they anticipate being able to sign a binding agreement on all issues together, he said. The 10 bcm/year of Shah Deniz gas to be exported to Europe is slated to be transited via one of three pipeline projects vying for the gas. The projected 31 bcm/year Nabucco and the planned 11 bcm/year ITGI lines are competing for the role of principal carrier of Azeri gas to Europe with a third project, the proposed 20 bcm/year Trans-Adriatic Pipeline, which would run from Greece to Albania and Italy.

Turkey's BOTAS has for some years been a member of the consortium sponsoring the Nabucco project, and has also for some years offered public support for ITGI, without joining that onsortium. Earlier this week, Turkish gas shipper BOTAS signed an MOU with the TAP consortium under which it will evaluate that project and look at possible areas of cooperation.

The ministry spokesman also confirmed Friday that no further discussions had been held over the issue of Botas re-exporting Azeri gas to Greece it buys under Turkey's existing agreement for 6.6 bcm/year from the first phase of Shah Deniz.

Turkey to stop selling Azeri gas to neighboring Greece

Today's Zaman (Reuters), *27.04.2011*

A top Turkish energy official has said Turkey will stop selling the 750 million cubic meters of natural gas it buys from Azerbaijan each year and start using it for domestic purposes. The official, whose name was not disclosed, said Azerbaijan will directly sell that much natural gas to Greece via pipelines that run through Turkey, which will also be paid a certain amount in the form of a transition fee.

"The relevant signatures have yet to be obtained. And once the deal is completed, Turkey will continue to buy 6.6 bcm of natural gas from Azerbaijan, but its natural gas exports to Greece, which have been continuing since 2008, will stop," the official was quoted as saying.

A previous report by the Reuters news agency already mentioned that Greece and Azerbaijan agreed to supply Azeri gas to Turkey's northwestern neighbor. The same official also confirmed that Azerbaijan has been willing to sell its gas directly to Europe. The official said no delay in this sale is expected once the signatures are obtained.

The state-owned Turkish Pipeline Corporation (BOTAS) will maintain the right to re-export the 750 million cubic meters of natural gas it bought from Azerbaijan and has sold to Greece for the past three years to a third country. The official, however, noted that such an option is not currently possible since Turkey's domestic demand for energy has been steadily increasing as the country's economy has constantly grown at a rapid pace since 2003, except for 2009 when it contracted by 4.7 percent due to the global financial crisis.

Despite that contraction, the Turkish economy grew by almost 5 percent between 2003 and 2010. This economic growth trend is expected to continue this and the following years. Turkey is presently importing natural gas from Russia, Iran, Algeria and Nigeria as well as Azerbaijan.

‘Crazy’ Istanbul Canal is a Nabucco rival, academics say

Hürriyet Daily News (Tuba Parlak), *27.04.2011*

It is unclear whether the Istanbul Canal, a proposed waterway in western Istanbul, will be an efficient replacement for the Bosphorus, according to energy analysts, who nonetheless agree that it will rival regional energy pipeline projects.

“The same environmental risk prevails, whether it is the Bosphorus or another canal cutting through the land of Istanbul. I don’t see much difference in terms of openness to multiple risks between a man-made canal and a natural one,” Emre Iseri, an assistant professor at international relations department of Istanbul Kadir Has University, told the Hürriyet Daily News on Wednesday.

Earlier in the day, Prime Minister Recep Tayyip Erdogan announced his self-declared ‘crazy project’ to remove tanker traffic from the Bosphorus by construction a 40-to-50-kilometer-long canal from the Black Sea to the Marmara Sea through the Istanbul districts of Catalca and Silivri. But Iseri said the project simply subverted the previous arguments about a devotion to maintain energy and environmental safety. “Such passages are open targets for terror attacks, I wonder how they will be able to maintain safety also in that sense,” he said, adding that the construction details of the canal were of the utmost importance to know whether it really would be able to facilitate the passage of heavy-tonnage vessels carrying energy resources.

Others, however, viewed the project more optimistically. “As we all very well know, the Bosphorus is a narrow and difficult path to pass through and oil tankers especially pose a great threat to environmental safety and are capable of causing catastrophic consequences as we have experienced in the past,” Professor Beril Tugrul, the head of U.S desk of nuclear studies at the Energy Institute of Istanbul Technical University, told. “Therefore, I believe that this project will replace the Bosphorus in facilitating oil tankers’ transportation, thus eliminating the risk factor for the strait,” she said.

The two specialists, however, agreed that the initiative was an overt effort to provide an alternative for ongoing pipeline projects. Tugrul said there were two methods for energy transfer: marine transport and pipelines. “This canal is obviously an alterative for pipelines aiming to facilitate the transfer of energy from northern resources to southern Europe. However, I can’t say that it would do much good in energy transfer to Central Europe,” she said.

Iseri, however, questioned the need for Turkey to continue its support for the Nabucco gas pipeline. “Again, they are undermining their own arguments, if we are building this canal, we could use it to transfer LNG on sea vessels like we do to petroleum. Why should we have a need for Nabucco, then?” he said. Nabucco officials in Turkey declined to comment on the Istanbul Canal project when contacted by the Daily News

Aladdin spuds exploration well in eastern Turkey

Rigzone, *28.04.2011*

Exile Resources announced that, with partner Valeura Energy Inc. and operator Aladdin Middle East Ltd., it had spud the Company's first exploration well, Bostanci-1, on April 24, 2011 in Turkey. This well is located in the southern most corner of the Rubai License 2600 adjacent to the borders with Iraq and Syria.

"The Bostanci structure is a large surface anticline, with Cretaceous Mardin limestones interpreted to lie within the core of the structure as the reservoir target," said Tony Henshaw, President and CEO of Exile Resources.

Due to surface location constraints, the Bostanci wellsite is located to the north of the target and will require a deviated well, of approximately 11,400 feet measured depth, to reach the interpreted reservoir level. This is expected to take approximately 70-80 days to drill. Exile and Valeura are sharing equally the drilling costs of the well, estimated to be $6.2 million excluding completion and cased-hole testing. This expenditure would take Exile's equity to just under 29%. The Ogündük area is still under evaluation, as the partners continue to evaluate the results from the seismic program and consider other leads on the license area.

TransAtlantic to buy Thrace Basin assets

Rigzone, *28.04.2011*

TransAtlantic and Mustafa Mehmet Corporation (MMC) have entered into a definitive share purchase agreement. The Purchase Agreement follows the Option Agreement the Company entered into on November 8, 2011 and the subsequent exercise of the option on February 10, 2011.

Under the terms of the agreement, TransAtlantic Worldwide or its assigns will acquire all of the shares of Thrace Basin Natural Gas Türkiye Corporation (TBNG) in exchange for the Company issuing 18.5 million of its common shares and for the transfer of certain overriding royalty interests (ranging from 1.0% to 2.5% of the working interests owned by TBNG on specified exploration licenses) to MMC or an affiliate.

TBNG and its sister company, Pinnacle Turkey Inc. (PTI), currently produce an aggregate of approximately 25.0 million cubic feet of natural gas per day in the Thrace Basin region of northwestern Turkey and hold interests in approximately 600,000 net onshore acres and 360,000 net offshore acres in the Thrace Basin and approximately 305,000 net onshore acres in the Gaziantep region of southeastern Turkey.

The Company expects that third party investors, including Valeura Energy Inc., will provide between $90.0 and $100.0 million in cash to acquire between approximately 59.5% and 65% of the current production and acreage owned by TBNG and PTI. Closing of the transactions contemplated by the Purchase Agreement is expected to occur late in the second quarter of 2011 and is subject to, among other conditions, the receipt of consents from all required regulatory authorities, including the Competition Board of the Republic of Turkey.

Gazprom sees contract gas prices for Europe rising

Reuters (Vladimir Soldatkin), *25.04.2011*

Gazprom expects its gas prices for Europe in long-term contracts to average $500 per thousand cubic metres by December, above planned levels, its chief executive told.

Gas prices are linked to those of oil products and crude, which is trading above $120 per barrel, the highest level since 2008 due to political unrest in the Middle East and North Africa. CEO Alexei Miller also said that April export gas volumes to Europe, which receives around a quarter of its gas supplies from Gazprom, will exceed those during "some winter months", when there is typically peak demand for the fuel.

"The European markets are beating all the records. For example, Gazprom's April export supplies will exceed those for some winter months, while for December we see our long-term contract prices at around $500. I think those will not be the last records we will witness this year," he said. The company in February had planned for a gas price increase of around 15 percent for Europe in 2011 to $352 per thousand cubic metres on average, though analysts consider the figure too conservative. Its average European export price in the first quarter of the year was already $346 per thousand cubic metres.

Demand for gas in Europe is rising on the back of economic recovery. Meanwhile, Gazprom is also getting an upper hand due to the nuclear power crisis in Japan as European countries start backpedalling on nuclear energy development and look instead to increase gas in the energy mix. The Russian company has also said that European demands for pricing concessions in long-term contracts have eased as spot prices have increased.

Iraq sets January 2012 for its 4th energy auction

Today's Zaman (AP), *26.04.2011*

Iraq will auction off 12 mainly gas exploration blocs during a January 2012 bidding round as the country pushes ahead with efforts to beef up its energy sector, the oil minister said.

The January auction will be Iraq's fourth bidding round on its energy assets since the overthrow of Saddam Hussein in 2003. The country's oil and gas sector is struggling to overcome years of neglect and violence by seeking international investment to exploit its below-ground riches. Oil Minister Abdul-Karim Elaibi told that interested companies have until May 19 to prequalify to compete for the 12 blocs.

No exact date for the bidding was given. "We hope that the next bidding round will achieve good results and bigger success than the ones before," said Abdul-Mahdi al-Ameedi, general director of the oil ministry's licensing and contracts department. Iraqi oil officials said the companies will be paid a flat fee for their services rather than a share in the discovered resources. Iraq has awarded 15 oil and gas deals since 2008 to international energy companies in the first major investment in the country's energy industry in more than three decades. Seven of the exploration blocs are gas and the others are oil fields.

Five of the blocs are in Iraq's western Anbar province or shared between Anbar and neighboring provinces; one is in the northern Ninevah province; one is shared between central Diyala province and neighboring Wasit province while the rest are scattered throughout southern Iraq. The Iraqi oil minister also reiterated his belief that $120 per barrel is an acceptable price for oil and would not affect the global economy. The jump in oil prices has been a boon for Iraq, also an OPEC member.

Baghdad is almost entirely dependent on the price of oil for revenue and rebuilding its war-damaged economy. The blocs that will be on offer in January are expected to add about 29 trillion cubic feet of natural gas to the current 126.7 trillion cubic feet in reserves, and about 10 billion barrels of oil to the current 143.1 billion barrels of oil.

Lukoil to begin work with Rosneft in Caspian and Black Seas

Rigzone (Dow Jones), *25.04.2011*

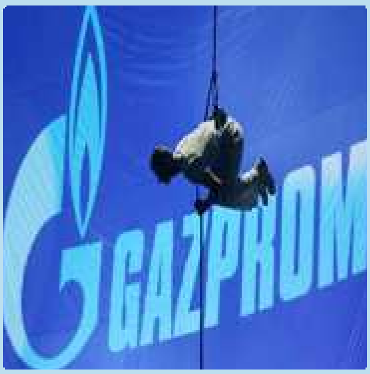
Russia's biggest private oil producer Lukoil and state oil champion Rosneft plan to begin joint exploration in the Black and Caspian Seas under a new long-term cooperation agreement, Lukoil Chief Executive Vagit Alekperov said Saturday, according to the government's website.

The two companies announced a deal to merge forces in offshore exploration last week. "It's a step forward that today allows us to take on very complex projects, both technological and capital-intensive," Alekperov told Prime Minister Vladimir Putin during a meeting.

Alekperov said Lukoil and Rosneft are likely to begin their joint work on projects in the Caspian and Black Seas, and may also merge two projects in the Timan Pechora region, where Lukoil already has oil export infrastructure in place. The agreement also envisions joint development of offshore fields in the Azov Sea and in Arctic waters, Alekperov said. Alekperov didn't say when work would begin, but said the deal with Rosneftby Sept. 1.

Gazprom up on sales hike

Upstream Online (Eoin O'Cinneide), *28.04.2011*



A large hike in gas sales to Former Soviet Union (FSU) countries and at home helped Russian monopoly Gazprom to an increased net profit last year.

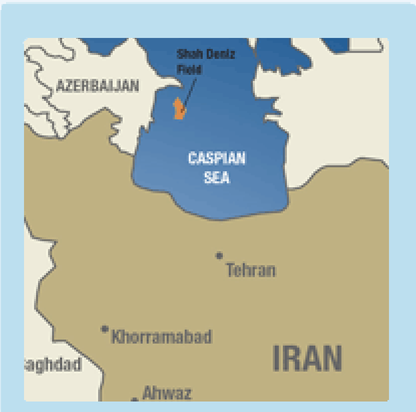
The company rode a drop in net sales to Europe and soaring expenses and was also buoyed by increased sales of crude oil and gas condensates as well as refined products. Net profit for the 12 months to the end of December was 997.99 billion rubles ($36.27 billion) as against 793.79 billion in 2009. This was due to a rise in total sales from 2.99 trillion rubles to 3.6 trillion rubles while there was also an over 2 billion ruble hike in trading activity gains.

Operating expenses were, however, well ahead at 2.44 trillion rubles as compared with 2.09 trillion the year before. Net gas sales rose 14% in the year to 267.7 billion rubles. “This increase was due to the growth of volumes of gas sold to [FSU] countries, due to the increase of tariffs for domestic gas sales which are set by the Federal Tariffs Service as well as due to the increase of average realized prices for gas sold to [FSU] countries,” the company wrote in its result announcement.

Net gas sales to FSU countries alone was up 45% with domestic sales ahead by 27%. In Europe it was a different story with net sales down 1% as average prices slipped 3%. Net refined products sales went up by 31%, of electric and heat energy by 50% and of crude oil and gas condensates by 11%. Gazprom chief executive Alexei Miller this week warned that the company plans on hiking gas prices to Europe by 15% this year.

BP to abandon Shah Deniz well in Caspian Sea

Rigzone (Trend News), *26.04.2011*



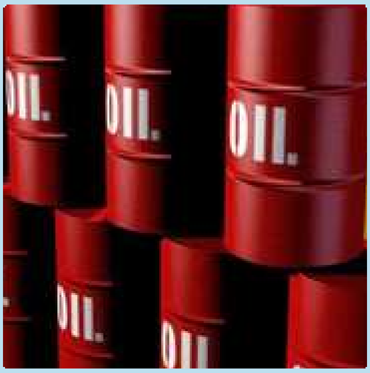
BP is the technical operator for development of the gas condensate field Shah Deniz in Azerbaijan’s sector of the Caspian Sea. It will drill a new well SDX-07 for more advanced drilling in the field, a source in the oil and gas market said.

BP previously began drilling the SDX-07 well, but operations were suspended due to problems of lifting the casing pipe. The pipe was to be lowered to a depth of 1,100 meters, but could only descend to a depth of 900 meters. “The well will be eliminated,” a source said. “The drilling rig will be moved to another location to drill a new well.”

The source did not mention a set date of liquidating the old well and its replacement with the new one. He said that drilling is conducted from the Istiglal rig. Drilling of the new well is planned to be completed by late 2011. Two offshore platforms will be installed and 30 underwater wells will be drilled to extract additional 16 bcm of gas per year within the Shah Deniz-2 project. Peak production is forecast at over 8.6-9 bcm. Gas production may be brought up to 25 bcm per year under the second stage of development.

Russia hikes export duties to fight gasoline crunch

Reuters, *28.04.2011*



Russia's government will hike export duties on gasoline as the world's largest oil producer fights fuel shortages on the domestic market, government sources said on Thursday.

The duties will go up by 44 percent from May 1 after Prime Minister Vladimir Putin earlier in the day ordered officials to raise them "so that export economics and the sale of product on the domestic market correspond with one another." The export duty on gasoline will rise to 90 percent of the fee applying to crude oil, from 67 percent. Based on Reuters calculations that works out at $408 per tonne -- or more than $100 per tonne higher than had been expected.

"We will sign the order today and it will come into force as of May 1," said a senior government source. "It is a temporary measure and only concerns gasoline. There is no firm duration, but it may stay in force until August." Analysts said the government's response to rapidly-spreading shortages across the country was hurried and failed to tackle the root causes of the supply crunch: price curbs it has imposed and delays to upgrading Russia's refineries.

"This is a knee-jerk reaction to a short-sighted policy. If you prevent companies from acting as a profitable business, this is what you are going to get," said Artem Konchin, oil analyst at UniCredit in Moscow. The fuel crisis, if prolonged, could hurt the popularity of Putin, the point man for the economy in Russia's ruling 'tandem'' with President Dmitry Medvedev. One of the two is likely to run in a presidential election next March.

Surging global oil prices coupled with price restrictions demanded by Putin from industry bosses in February prompted producers to raise exports of low-grade gasoline by 40 percent in the first quarter. "This is entirely the government's fault, because it couldn't think of anything better at the beginning of the year than to force companies to put price caps at the pump," said Alexei Kokin, an oil analyst at Uralsib.

Unrest and supply disruptions in other oil exporting countries have sent crude and petrol prices to 2-1/2 year highs. Unable to sell product in Russia at these levels, companies ramped up production of Euro-2 gasoline, which as of Jan. 1 is banned from sale in Russia, and exported it to countries like China, Turkey and Kazakhstan. Russia exports small volumes of premium gasoline to Europe, and traders there expressed little concern over the duty hike. "Europe is mega-long gasoline," said one. "I'm not sure why anyone would be worried."

In the first quarter, Russia increased exports of gasoline by rail, the primary mode of gasoline transport, by 40 percent to 2.14 million tonnes. As a share of total Russian gasoline output, exports also rose sharply, to 25 percent in March from 11 percent a year ago.

Over 90 percent of premium gasoline produced in Russia is consumed domestically, so lower exports alone would not help cover rising demand from a fast-growing fleet of new cars that run on high-octane Euro-3 and Euro-4 gasoline. A lack of tax incentives to encourage investments in refinery upgrades to produce higher-quality fuel is largely to blame, industry officials say. Spring maintenance shutdowns to switch over to summer blends have added to supply tightness.

"As the car fleet improves, the low-octane fuels are no longer required. The high-octane fuels come into demand and that's what's short," Jonathan Muir, chief financial officer of TNK-BP, told Reuters. The only two firms which exported nearly no gasoline in the first quarter were those that have invested most in retooling their refineries -- privately-owned LUKOIL and TNK-BP.

Obama says he wants oil producers to boost output

Today's Zaman (AP), *27.04.2011*

As the high cost of gasoline takes a toll on politics and pocket books, US President Barack Obama said he is calling on major oil producers such as Saudi Arabia to increase their oil supplies to help stabilize prices, warning starkly that lack of relief would harm the global economy.

"We are in a lot of conversations with the major oil producers like Saudi Arabia to let them know that it's not going to be good for them if our economy is hobbled because of high oil prices," Obama told. His remarks signaled a broad new appeal in the face of skyrocketing gasoline prices in the United States and they came as he reiterated a call for Congress to repeal oil industry tax breaks.

Obama said the message to major oil producers like Saudi Arabia is that an economy that buckles because of high oil prices won't grow and won't be good for them or for the US. Obama acknowledged disruptions in oil production because of the war in Libya. But he said others can make up the difference and "we're pushing them to do so."

Libya supplied less than 2 percent of world demand. Saudi Arabia and other OPEC countries already are covering some of that shortage by boosting production. The president's effort to compel more overseas production echoed calls by President George W. Bush in 2008 urging Saudi Arabia to increase supplies during that year's spike in gasoline prices. The Saudis rebuffed Bush's efforts.

Obama said he has stressed the self-interest of oil producing nations, arguing that “if we’re not growing, they’re not going to be making money either. And so they need to increase supplies.” Gas pump prices have climbed in the US for 35 consecutive days. In a letter to congressional leaders, Obama urged them to take steps to repeal oil industry tax breaks, reiterating a call he made in his 2012 budget proposal earlier this year. The White House conceded that plan would do nothing in the short term to lower gasoline prices.

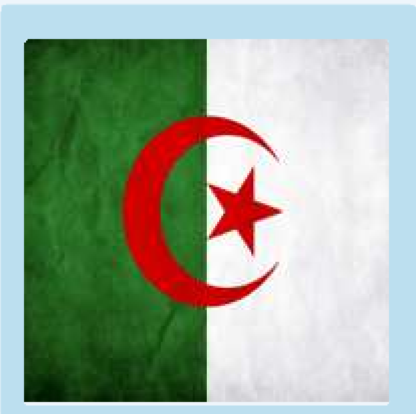
The president wrote a day after Republican House Speaker John Boehner said he was willing to ‘take a look at’ repealing the multibillion-dollar tax subsidies enjoyed by the major oil companies. Boehner aides on Tuesday sought to clarify Boehner’s stance, stressing that he was not advocating repeal of the tax breaks. “He has said all along that he is opposed to raising taxes,” Boehner spokesman Kevin Smith said. “That’s his position.”

Rising prices have become a political weight for the White House, with polls showing that as the cost rises at the pump, the president’s approval ratings have slipped. “High oil and gasoline prices are weighing on the minds and pocketbooks of every American family,” Obama wrote. But he also added that “there is no silver bullet to address rising gas prices in the short term.”

Obama’s proposal, spelled out in his past two budget plans, would eliminate a number of tax breaks for oil companies that would generate an estimated $4 billion a year in additional revenue. The tax breaks -some in place since the 1920s- have survived multiple attempts to repeal them in the face of heavy oil industry lobbying. The Republican response to the president’s letter was dismissive. Another Boehner spokesman, Brendan Buck, said Obama’s suggestions “would simply raise taxes and increase the price at the pump.” And Senate Republican leader Mitch McConnell said: “The president’s latest call to raise taxes on US energy is as predictable as it is counterproductive.” Blaming the subsidies on “outdated tax laws,” Obama said money obtained from repealing the breaks should be spent on clean energy initiatives to reduce dependence on foreign oil.

Eni and Sonatrach team up in Algeria shale JV

Rigzone, *28.04.2011*



Eni and Sonatrach signed a cooperation agreement for the development of unconventional oil, with particular focus on shale gas reinforcing the close relationship between the two companies.

Eni and Sonatrach will jointly implement activities to assess the technical and commercial feasibility of exploration and operational initiatives in shale gas. Based on previous assessments, Eni confirms the significant shale gas reserves in Algeria which Eni and Sonatrach wish to explore and develop.

Libyan rebel oil production down for 4 more weeks

Today's Zaman (AP), *26.04.2011*

Libyan rebels fighting Muammar Gaddafi won't be able to produce more crude oil for at least another four weeks and are taking steps to conserve precious supplies of fuel and money, the top oil official in the breakaway east said.

The rebels need to repair equipment to pump oil from two key fields in the rebel-controlled east, Messla and Sarir, which were damaged in fighting, said Wahid Bughaigis, who serves as oil minister for the rebels. "We just finished the assessment, and we are in the process of mobilizing the repairs," Bughaigis told in Benghazi, the de facto capital of the rebel-held east.

"We believe we need a minimum of four weeks to get back on stream." OPEC-member Libya sits atop Africa's largest proven oil reserves. But Libyan exports have largely disappeared from the international market since the uprising began, helping drive oil prices to their highest levels in more than two years.

Earlier this month, the Gulf state of Qatar helped rebels complete the sale of 1 million barrels of crude that netted roughly $129 million for the anti-Gaddafi forces. But Bughaigis said he believed the rebels have spent much of that money on things like imported gasoline. "To put things in perspective, one cargo of gasoline of 25,000 metric tons costs us $75 million, so you don't go far with $129 million," he said. Gasoline is sold at highly subsidized prices in eastern Libya. But Bughaigis said the rebels may have to re-examine whether the current consumption is sustainable. "If it was only up to me, I would certainly put some rationing into the system, but we don't want to give any satisfaction to Mr. Gaddafi," said Bughaigis. "We want to show him we can run the country."

To conserve fuel, the rebels have cut electricity production in Benghazi by 25 percent, said Bughaigis. The main plant providing power to the city used to be run with natural gas supplied from the oil facilities in Brega, now under government control. Now power plants are must rely on imported diesel fuel, he said. The reduction in electricity production, which has been achieved by cutting power for up to 3.5 hours in different parts of the city, is meant to give the rebels "some breathing time between arrivals of tankers," said Bughaigis. "We didn't have this problem when the gas was supplied to the plants, but now we have to supply it by sea and get it from the road," he said.

Bughaigis said previously that the equipment that was damaged at the oil fields included a power generation system, one oil tank and several small diesel tanks that fueled the generators. The rebels say the equipment was hit by pro-Gaddafi forces. The government, however, has blamed British warplanes for the damage a charge NATO denied.

Announcements & Reports

► *IEA Oil Market Report*

Source : International Energy Agency
Weblink : http://omrpublic.iea.org/

Upcoming Events

► *OGU 2011*

15th Uzbekistan International Oil & Gas Exhibition & Conference

Date : 17 – 19 May 2011
Place : Tashkent – Uzbekistan
Website : http://www.oguzbekistan.com/2011/

► *SEA 5 2011*

Algerian Energy Week

Date : 21 – 25 May 2011
Place : Oran – Algeria
Website : http://www.sea5-algeria.com/

► *Caspian Oil & Gas 2011*

18th Caspian International Oil & Gas Exhibition & Conference Incorporating Refining & Petrochemicals

Date : 7 – 10 June 2011
Place : Baku – Azerbaijan
Website : http://www.caspianoil-gas.com/2011/

► *MIOGE 2011*

11th Moscow International Oil & Gas Exhibition

Date : 21 – 24 June 2011
Place : Moscow – Russia
Website : http://www.mioge.com/2011/

► *International Electricity Summit* ***(in Turkey)***

Date : 14 – 16 September 2011
Place : Ankara – Turkey
Website : http://www.energy-congress.com/